

Message Text

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PAGE 01 CARACA 07200 030438Z
ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 CIAE-00 DODE-00 PM-05 H-02
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E.O. 11652: NA
TAGS: EFIN VE
SUBJECT: GOV PLANS TO RENEGOTIATE FOREIGN DEBT

REF: CARACAS 5896

1. THE MINISTRY OF FINANCE HAS ANNOUNCED PLANS TO PROCEED WITH THE RENEGOTIATION OF \$4 BILLION IN OUTSTANDING EXTERNAL DEBT, A FIGURE WHICH REPRESENTS ABOUT 60 PERCENT OF TOTAL PUBLIC EXTERNAL DEBT. CITING FAVORABLE CIRCUMSTANCES IN INTERNATIONAL FINANCIAL MARKETS, THE MINISTRY INDICATED NEGOTIATIONS WOULD TAKE PLACE DURING THE SECOND HALF OF 1978, WITH A TARGET DATE FOR COMPLETION OF DECEMBER 31.

2. AS REPORTED IN CARACAS A-153, DATED NOVEMBER 2, 1977, VENEZUELA'S PUBLIC SECTOR DEBT SERVICE REQUIREMENTS INCREASE SHARPLY IN THE NEXT TWO YEARS. TWO YEAR GRACE PERIODS ON MAJOR LOANS NEGOTIATED BEGINNING IN OCTOBER OF 1976 BEGIN TO EXPIRE THIS FALL. THE GOV ESTIMATES THAT, WITHOUT A RENEGOTIATION OF THE TERMS OF PUBLIC DEBT, \$1.8 BILLION IN DEBT SERVICE OBLIGATIONS FALL DUE DURING CY 1979. DEBT SERVICE REQUIREMENTS PEAK IN THE 1981-83 PERIOD AND DECLINE SHARPLY THEREAFTER.
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PAGE 02 CARACA 07200 030438Z

3. AT THE END OF MAY, 1978, EXTERNAL PUBLIC SECTOR DEBT TOTALLED \$5.4 BILLION, AN INCREASE OF ABOUT 350 PERCENT IN TWO YEARS. OF THIS AMOUNT, ABOUT \$3 BILLION WAS BORROWED UNDER THE BASIC SECTOR FINANCING LAW, FOR USE IN FINANCING MAJOR PLAN V PROJECTS, \$1.6 BILLION WAS USED FOR NORMAL DEBT OPERATIONS, INCLUDING REFINANCING EXISTING

GOVERNMENT DEBT, \$580 MILLION WAS CONTRACTED TO MEET OBLIGATIONS INCURRED BY THE NATIONALIZATION OF THE OIL AND IRON ORE INDUSTRIES, AND \$625 MILLION WAS USED TO FINANCE CONSOLIDATION OF DEBT OF AUTONOMOUS AGENCIES BEGINNING IN 1976.

4. GIVEN THE STRUCTURE OF VENEZUELA'S DEBT, REQUIRING HEAVY DEBT SERVICE PAYMENT DURING THE NEXT FOUR YEARS, PLUS THE PROSPECTS FOR BALANCE OF PAYMENTS DEFICITS FOR AT LEAST THE NEXT THREE YEARS AND THE RECENT DECLINE IN REAL INCOME FROM THE SALE OF PETROLEUM ABORAD, THE GOV DECISION TO RENEGOTIATE ITS DEBT MAKES SENSE. LOCAL BANK REPS BELIEVE THE GOVERNMENT WILL PROBABLY SUCCEED IN ITS EFFORT TO REDUCE DEBT SERVICE OUTLAYS DURING THE NEXT 2-4 YEARS.
CROWLEY

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